BOARD OF COUNTY COMMISSIONERS' (BOCC) CONCURRENCE FORM

This form must be completed for all staff reports being prepared for BOCC meetings/public hearings and is the cover sheet for the staff report. The original (single-sided) staff report needs to be submitted to the County Manager's Office one (1) week in advance of the scheduled presentation date. For Closed Sessions please submit the original (single-sided) and 8 (double-sided copies) of the staff report.

To: Office of the County Manager

From (Name & Division): Lori L. Depies, CPA **Phone #:** 301-600-3190

Requested Meeting Date (mm/dd/yr): 11/29/12 **Est. Presentation Time:** 30 minutes

Staff Report Topic:
(The text provided here will also be reflected on the meeting agenda and county's website.)

Options for the Citizens Care & Rehabilitation Center/Montevue Assisted Living

County Funds Requested/Required: $ Pending BOCC decision

Type of Meeting:
(Click to place a check mark in the following appropriate boxes.)

☐ Administrative Business *(The Consent Agenda Committee determines which items are eligible for the consent agenda.*

☑ Worksession ☐ Closed Session ☐ Public Hearing (a.m. ☐ or p.m. ☐)

☐ BOCC/BOE Mtg. ☐ County/Municipalities Mtg.

☐ Power Point Presentation

Board Action Desired: ☑ Decision ☐ Guidance ☐ Information

Staff Report Review:

This staff report has been thoroughly reviewed first by the appropriate divisions/agencies noted on Page 2 followed by those outlined below :

	Initials	Date	Comments Y/N (Page 2)
☑ Budget Officer	CRH	11/26/12	N
☑ Finance Director	EW	11/26/12	N
☑ County Attorney's Office	JM	11/26/12	no
☑ County Manager	ed	11/26/12	N

Other Reviewing Divisions/Agencies:
(Click to place a check mark in the following appropriate spaces.)

	Initials	Date	Comments Y/N *(noted below)*
__ __ Animal Control			
__ __ Business Development & Retention			
__ __ Citizens Services			
__ __ Community Development			
__ __ Emergency Management			
__ __ Fire & Rescue Services			
__ __ Health Services			
__ __ Human Resources			
__ __ Interagency Information Technologies			
__ __ Internal Audit			
__ __ Parks & Recreation			
__ __ Public Works			
__ __ Transit Services			
____ Utilities & Solid Waste Management			
____ Other: ________			
____ Other: ________			
____ Other: ________			

Elected Officials or Independent Agencies:

	Initials	Date	Comments Y/N *(noted below)*
__ __ Board of Education			
__ __ Board of Elections			
__ __ Board of License Commissioners			
__ __ Citizens Care & Rehabilitation Center/ Montevue Assisted Living			
__ __ Frederick Community College			
__ __ Frederick County Public Libraries			
__ __ Sheriff's Office			
__ __ Social Services			
__ __ State's Attorney's Office			

Comments:

1. **From:** ____________ **Date:** ____________

2. **From:** ____________ **Date:** ____________

3. **From:** ____________ **Date:** ____________

4. **From:** ____________ **Date:** ____________

5. **From:** ____________ **Date:** ____________

FREDERICK COUNTY GOVERNMENT
OFFICE OF THE COUNTY MANAGER

Winchester Hall, 12 East Church Street
Frederick, Maryland 21701

www.FrederickCountyMD.gov

O: 301-600-1100 F: 301-600-1050

EXECUTIVE SUMMARY

ISSUE:
Available options for the Board of County Commissioners (BoCC) to consider related to the future of the Citizens Care and Rehabilitation Center/Montevue Assisted Living (CCRC/MAL) facility in order to eliminate the General Fund subsidy programmed in the Fiscal Year 2014 (FY14) base budget and beyond.

DISCUSSION:
The projected structural deficit in FY14 has given this BoCC pause to question the core functions of the Frederick County government. In order to combat increasing service costs and possible cuts in the Medicaid and Medicare revenues, the BoCC is forced to determine the proper action as it relates to the feasibility of continuing to offer these services to residents. The BoCC has four options for consideration, the details of which are attached to this staff report.

OPTIONS:
1. The BoCC could consider a return to the original operational model for both facilities where the management team as well as the nursing and support staff are all county employees.
2. The BoCC could consider continuing the hiring of third party management as is currently in operation at the combined facility.
3. The BoCC could consider the establishment of a Public Benefit Corporation (PBC) with a governing board.
4. Finally, the BoCC could consider a complete sale and privatization of the facility.

RECOMMENDATION:
It is recommended that the BoCC direct staff to explore the options available to privatize the operations. It is anticipated that by using the request for proposal process the County will obtain the best possible opportunity for privatization. This opportunity could take the form of either a sale of the operations and a lease of the real property and facility or a complete sale of both the operations and real property and facility. Either arrangement will permanently eliminate the General Fund subsidy to CCRC and MAL from the future budgets.

Staff also recommends the BoCC direct staff to seek assistance from a licensed real estate broker with experience in the marketing and sale of skilled nursing and assisted living facilities.

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OFFICE OF THE COUNTY MANAGER

Winchester Hall, 12 East Church Street
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O: 301-600-1100 F: 301-600-1050

MEMORANDUM

To: Board of County Commissioners

From: Lori L. Depies, CPA, County Manager Lori L. Depies

Date: November 29, 2012

Re: Options for the Citizens Care & Rehabilitation Center/Montevue Assisted Living

ISSUE: Available options for the Board of County Commissioners (BoCC) to consider related to the future of the Citizens Care and Rehabilitation Center/Montevue Assisted Living (CCRC/MAL) facility in order to eliminate the General Fund subsidy programmed in the Fiscal Year 2014 (FY14) base budget and beyond.

BACKGROUND: At a work session held on October 25, 2012, the BoCC considered a proposal by the Budget Office to consolidate the fire tax district expenditures into the General Fund and recalibrating the FY14 real property tax rate.

During this discussion, the effect of this consolidation on the possible FY14 General Fund structural deficit was considered by the BoCC. The effect of this consolidation is significant and requires the BoCC to look at all possible options to reduce the impact. Because the CCRC/MAL operations receive a subsidy from the General Fund, the BoCC directed the County Manager to explore the options available to eliminate this subsidy from the FY14 budget.

One hundred and thirty years ago, in 1870, a bequest was made by the Bronner (Brunner) Family of 70 acres of land west of Frederick City to be used for providing health care services to the indigent and disabled citizens of Frederick County. The first facility erected was the old Montevue Home.

Located behind this mammoth structure was a building used to house transients, which was known as the "Tramp House". It would later become what was called the Emergency Hospital.

The need to provide increasingly more acute care continued to grow in the County. At that time private nursing homes would not accept Medicaid patients. To meet this need, Citizens Nursing Home of Frederick County was opened on December 7, 1976. Five years later, the facility was expanded with an additional wing and the new Montevue Home was built nearby and dedicated on May 16, 1987.

Now, 36 years later, the County has completed the construction of a state of the art facility that combines both CCRC and MAL operations under one roof. The construction of this facility began in October of 2009 and cost approximately $32,000,000 to complete. The project was funded primarily with General Obligation tax exempt bonds of Frederick County. The total debt obligation of the County for the facility at this time is $30,840,209.

The fiscal year 2013 budgets of both CCRC and MAL require General Fund subsidies, $1,678,665 and $2,512,022 respectively. The General Fund subsidies have existed since the operations themselves have been in existence. Attached to this staff report is a schedule that reflects the General Fund subsidies of both operations since fiscal year 2000.

DISCUSSION: The projected structural deficit in FY14 has given this BoCC pause to question the core functions of the Frederick County government. In order to combat increasing service costs and possible cuts in the Medicaid and Medicare revenues, the BoCC is forced to determine the proper action as it relates to the feasibility of continuing to offer these services to residents. The BoCC has four options for consideration, the details of which are attached to this staff report.

First, the BoCC could consider a return to the original operational model for both facilities where the management team as well as the nursing and support staff are all county employees. A third party consultant could be engaged to recommend and implement lean processes to result in waste reductions, greater efficiencies and ultimately eliminate the General Fund subsidy.

The advantages of this model are the continued ownership of the facility and provided care to the community, the continuance of the historic mission to offer health care services to the community, the increased morale of the employees through job security and the potential for long-term profit generation for the County.

The most significant disadvantage of this model is that the County retains responsibility for all losses related to the facility and this impact is felt by the taxpayer, driven by potential tax increases to further subsidize and fund operations. Current budget crises could siphon State and Federal budget dollars away from the facility in the form of Medicaid and Medicare reductions. Additionally, the costs associated with hiring third party consultants and implementing the reforms can be significant and there is no guarantee that the implemented process improvements will be successful.

Second, the BoCC could consider continuing the hiring of third party management as is currently in operation at the combined facility. The County contracted with a third party operator in 2011 and their contract is in place until June 2013.

The advantages here again are the continued ownership of the facility and provided care to the community, and the operator may be more effective implementing improvements than a consultant. The new management team may retain current employees, complete the existing contacts currently in place for dietary services and the management of the respiratory care unit. The potential exists for long-term profit generation for the County.

However, there is an additional cost related to the payment of a management fee. The time required to implement a new management style can be costly, with no guarantee that the new management practices will improve the well-being of the facility.

Once again, the County retains responsibility for all losses related to the facility and this impact is felt by the taxpayer, driven by potential tax increases to further subsidize and fund operations. Current budget crises could siphon State and Federal budget dollars away from the facility in the form of Medicaid and Medicare reductions and there exists a lack of insulation from unknown financial realties related to current long-term care overhaul. An ever present reality is the risk to the County's bond rating associated with the ownership of a financially distressed entity. Recently, Frederick County finance staff was advised by one rating agency that they expect their highly rated jurisdictions address and resolve their fiscal issues in a timely manner.

Third, the BoCC could consider the establishment of a Public Benefit Corporation (PBC) with a governing board. A PBC requires State legislature and Governor approval. The County would receive payment for sale of the facility from the PBC bond issuance and the PBC would then assume all responsibility and ownership of the facility, despite the County governing board.

While there are advantages to this option, the disadvantages are significant. There is a one-time infusion of cash to the County via the issuance of the bonds for the PBC, but the cash infusion would not likely be as great as if the facility were privatized through a complete facility sale. The County would no longer be responsible for the day-to-day operations of the facility, but also forfeits the ability to exercise any future control over the facility. By transferring the employees to the PBC employer, the future payroll and benefits are eliminated by the County and the employees are retained as public employees. There is a presumable continuity of care for the current residents of the facility and the potential exists for larger State and Federal grants to increase care services. A PBC is a tax-exempt entity and as a result, the County and Frederick City would not generate revenue from income or property taxes.

Most significant is that despite the creation of a PBC, a lack of timely financial stability and proper government reimbursement, future subsidies could be required by the taxpayers. In addition, if the PBC were to fail altogether, the ownership of the facility could potentially revert back to the County, leaving the County with an even larger liability.

Finally, the BoCC could consider a complete sale and privatization of the facility. The county would need to decide whether it has the staff with expertise to sell the facility on its own, or use a licensed real estate broker with experience in the sales of skilled nursing and assisted living facilities. It is anticipated that through a sale, the operations and the associated real estate would be sold in one transaction.

In a sale transaction, the County receives a one-time large sum of funds and would apply the net proceeds from the sale to the debt service currently outstanding. This option would also transfer hundreds of employees from the public sector to the private sector, thereby reducing the County payroll and benefits obligations and liabilities. A sale converts an annually tax-supported operation into a tax generation center for the County through the receipt of income taxes and real property taxes from the new owner. Also, the bond rating risk to the County is mitigated by no longer having ownership of a financially distressed entity.

The burden of an established operating loss falls from the taxpayer to the new buyer, and the County is now insulated from the unknown financial realities related to the current overhaul of long-term care and overall health care systems. Additionally, there is a presumable increase in flexibility in a private operator's ability to respond to changing service, administrative/management requirements and needs in comparison to the constraints by governmental bureaucracy and contractual agreements. A private owner has the potential to provide greater resources to the facility through purchases of new equipment, facility upgrades and additional services or levels of care.

The disadvantages of this option include the forfeiture of the County of its ability to exercise future control over the facility and its potential future profits. Uncertainty exists regarding the future of the County employees at the facility and the potential disruption of the continuity of care of the residents.

RECOMMENDATION: It is recommended that the BoCC direct staff to explore the options available to privatize the operations. It is anticipated that by using the request for proposal process the County will obtain the best possible opportunity for privatization. This opportunity could take the form of either a sale of the operations and a lease of the real property and facility or a complete sale of both the operations and real property and facility. Either arrangement will permanently eliminate the General Fund subsidy to CCRC and MAL from the future budgets.

Staff also recommends the BoCC direct staff to seek assistance from a licensed real estate broker with experience in the marketing and sale of skilled nursing and assisted living facilities. An intermediary will have a broader reach, and a full-time focus, as well as bring a non-political nature to the process.

Frederick County Government

General Fund Subsidies to Citizens Care and Rehabilitation Center(CCRC) and Montevue Assisted Living (MAL)
For Fiscal Years 2000-2013

	Fiscal Year	Total Subsidy
CCRC	2000	1,005,574
	2001	1,137,281
	2002	832,499
	2003	1,279,613
	2004	1,843,738
	2005	1,818,643
	2006	1,933,970
	2007	1,960,016
	2008	3,249,091
	2009	3,087,136
	2010	4,270,100
	2011	2,637,220
	2012	3,201,892
	2013*	1,678,665
Total CCRC		$ 29,935,438
MH	2000	850,881
	2001	949,298
	2002	1,036,269
	2003	1,162,046
	2004	1,209,551
	2005	1,007,892
	2006	1,545,848
	2007	1,767,962
	2008	2,138,475
	2009	2,104,749
	2010	2,290,445
	2011	2,311,169
	2012	2,770,954
	2013*	2,512,022
Total MH		$ 23,657,561

*Budget amount

Attachment

Options for the Citizens Care & Rehabilitation Center/Montevue Assisted Living

1. **County Owned and Operated/Reconfigure Operations:**

Re-finance –Bond Issuance
- Provide infusion of leveraged capital

Hire a Third Party Consultant
- Implement lean processes to result in waste reduction:
  - Implement technological improvements to drive process automation
  - Reduce nursing hours per resident day
  - Increase PPD (per patient days) to market averages
  - Improve staff to resident ratio
  - Improve payor mix
  - Reduce labor and fringe benefit costs
  - Increase marketing/promotion efforts to raise census to capacity

<u>Advantages:</u>

The continued ownership of the asset and provided care to the community
The promotion of harmony in the community through continuing the historic mission to offer long-term-care services
The increased morale of employees through job security
The potential for long-term profit generation for the County
The theoretical reduction of employee related expenses through salary and fringe restructuring

<u>Disadvantages:</u>

The County retains responsibility for all losses related to the facility
The impact felt by the taxpayer, driven by tax increases to further subsidize and fund operations
The current budget crisis could siphon State and Federal budget dollars away from the facility
The increases in benefit levels and retirement plan dollars for County employees directly correlate to escalating operating expenses
The costs associated with hiring third party consultants and implementing reforms
The bureaucratic impact of complex and expensive salary and fringe restructuring
The lack of insulation from unknown financial realties related to current long-term-care overhaul
The realization of County bond rating risk associated with the ownership of a potentially distressed entity
The need for certification or licensing adjustments
The time required to identify needed operation reconfigurations can prove costly
There is no guarantee that implemented process improvements will be successful

2. Hire Third Party Management:

County officials establish that a Third Party Operator is in the best interest of the County and the facility
County retains complete ownership of the facility
All impact from profits/losses remain the responsibility of the County
County owes operator/management fee; typically 5% of gross revenue before profit and losses

Advantages:

The continued ownership of the asset and provided care to the community
The new operator may be more effective implementing improvements than a third party consultant.
The third party management's income is tied directly to the facility's financial performance, increasing their incentive to lean processes throughout the facility
The potential for new management to retain current employees and complete existing contracts currently in place (for example, dietary and vent unit management)
The potential for long-term profit generation for the County

Disadvantages:

There may be a created need for certification or licensing adjustments
The additional cost related to payment of a management fee
The time required to implement new management style can prove to be costly
There is no guarantee that new management practices will improve the well-being of the facility
The County retains responsibility for all losses related to the facility
The impact felt by the taxpayer, driven by tax increase to further subsidize and fund operations
The current budget crisis could siphon State and Federal budget dollars away from the facility
The potential increases in liability derived from operating a nursing home and assisted-living facility
The increase in benefit levels and retirement plan dollars for County employees directly correlates to an escalation in operating expenses
The lack of insulation from unknown financial realties related to current long-term-care overhaul
The realization of County bond rating risk associated with ownership of a potentially distressed entity

3. Public Benefit Corporation (PBC):

County would establish a Public Benefit Corporation and governing board
State Legislature and Governor must approve of the PBC
County would receive payment for sale of the facility from PBC bond issuance
The PBC would then assume all responsibility and ownership of the facility, despite County governing board

Advantages:

The one time infusion of cash to the County via the issuance of bonds for the PBC
The County is no longer responsible for the day-to-day operations of the facility
The elimination of future payroll, benefits and pension obligations by transfer of employees to PBC employer
The presumable continuity of care for current residents of the facility
The presumable retention of employees as public employees
If supported by State Legislature, the PBC could be created without an RFP process
The potential for larger State and Federal grants to increase care services at the facility

Disadvantages:

The County would forfeit the ability to exercise future control over the facility
A PBC is a tax-exempt entity, and as a result, the County and municipality would not generate revenue from income or property taxes
If the PBC were to fail, ownership of the facility could potentially revert back to the County, leaving the County with and event larger liability
The creation of a PBC takes State Legislature and Governor approvals; if there are any objections, the process can be extensive, as many as six years, forcing the County to incur any operating losses during that time
The infusion of cash from bond issuance for the PBC would not likely be as great as if the facility were privatized through a complete facility sale
Despite creation of a PBC, lack of timely financial stability and proper government reimbursement could cause future subsidies by the taxpayer in addition to the fact that failure of the option could default the facility back to the County altogether

4. **Facility Sale and Privatization:**

County officials would establish that a complete sale and privatization of the facility is in the best interest of the County and facility staff
County would decide to sell the property on its own or through the use of a licensed real estate broker, with experience and expertise in marketing and sales of assisted – living and long-term-care facilities
Through the sale, operations and associated real estate are sold in one transaction

Advantages:

The County receives a one-time large sum of funds from the sale of the facility
The sale would allow for a pre-determined marketing time-line for completion of the process
The County would apply net proceeds from the sale to the highest and best allowable use (preferably outstanding debt obligations)
The transfer of hundreds of employees from the public sector to the private sector would reduce County payroll liabilities and future retirement plan contributions
The conversion of an annually tax-supported operation into a revenue center for the County through the receipt of income taxes
The County begins to receive real estate tax revenues from the new owner
The burden of an established operating loss falls from the taxpayer to the new buyer
The mitigation of bond rating risk to the County associated with the ownership of a financially distressed entity
The insulation from the unknown financial realities related to the current overhaul of long-term-care and overall health care systems
The presumable increase in flexibility in a private operator's ability to respond to changing service, administrative/management requirements and needs in comparison to constraints driven by public service, governmental bureaucracy and contractual agreements
The potential for a private owner to provide greater resources to the facility through purchases of new equipment, facility upgrades and additional services or levels of care

Disadvantages:

The County would forfeit ability to exercise future control over the facility
The loss of a County asset and potential future profit generator
Uncertainty regarding the future of the County employees at the nursing home
Potential disruption of the continuity of care